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State debt is skyrocketing

By Thomas D. Elias

Bill Lockyer deserves some applause. The state treasurer's landmark October report on the future of this state's budget deficits and how to handle them has some new and daring ideas, plainly designed to get conversation started and thought processes off the dime.

There's the notion of turning the University of California loose as a private system, since, after all, it is designed to serve only about 13 percent of the state's college-age youths. These may be the top 13 percent of academic achievers, but they're still far from the majority. No mention here of cutting support for the more inclusive, less-elite California State University system. Letting go of UC alone would save the state $7 billion a year.

Lockyer says private-public partnerships could finance new highway development, but they'd probably have to be toll roads to make this work. California has a few toll roads now, but it's far from certain how many could make it in the fabled land of the freeway.

He also says future budgets could be helped by assessments added to property taxes, noting that charging each property owner just $7.78 per year would raise $1 billion.

These kinds of tactics, Lockyer says, might be needed because 20 years from now, California will likely have $224 billion in debt from bonds used to build everything from roads to schools, sewers, dams and reservoirs. The treasurer expects that will just about triple today's $5.3billion per year in bond interest payments to more than $15 billion. His projections of state revenue and expenses see a $14 billion shortfall at that time - very close to the level of expected interest payments.

His estimate is based on the $135 billion worth of outstanding bonds already approved by the voters and another $90 billion or so that figure to pass in the future, based on past voting patterns.

Laudable as Lockyer's attempt to get discussion started may be, it totally ignores the most obvious way to minimize or eliminate the interest payments the state now makes every year.

That would be pay-as-you-go. For many decades, things like roads and dams were paid for with gasoline or water taxes, as those taxes came in. In other words, the people who used the infrastructure to be built (once known as public works projects) would pay for it.

But no more. Gasoline taxes once reserved for highways are now siphoned off to present the false appearance of a balanced budget. Other user taxes and fees go to purposes quite different from what they were originally supposed to cover.

The result has been bonds, bonds, bonds. Gov. Arnold Schwarzenegger vowed in 2004 to "throw away the credit card" if voters passed $15 billion in bonds that would build nothing at all, but merely plug a budget gap he had inherited from the ousted ex-Gov. Gray Davis.

But Schwarzenegger didn't come close to keeping his promise. In just five years, he's pushed bonds worth well over $50 billion, almost half the state's total authorized debt. Interest payments on those bonds will total almost as much.

The usual excuse for all this is that to build major projects, the state needs a huge pot of money. But that's not how it works in the real world. Road work covered by last year's infrastructure bonds, for instance, will take about 15 years to complete. If legislators required themselves to invest the exact same amount each year as will be required to pay off the bonds and interest for those same projects, they could be built in the same time and would be paid off just when they're finished. This would save half the money the state now plans to spend.

The same is true for dams and most other big infrastructure projects. Large projects are almost never built all at once. They are not paid for all at once, either. They could be paid off as they're built, without the burden of interest. Eliminate the interest and you have none of the future deficit Lockyer projects.

But he doesn't even consider that possibility. "We believe bond financing makes more sense," Lockyer said. "Paying for infrastructure on a pay-as-you-go basis can be less expensive for taxpayers . . . but it would take fiscal discipline that has not been evidenced."

So Lockyer has fallen into the same trap as everyone else in power positions in California government: They believe that they can't count on their successors to keep funding the projects that are needed, so they have to lock in the money right now.

This, of course, assumes today's leaders are wiser than tomorrow's, that the next generation will somehow be less dedicated than today's. Given the lack of perspicacity and courage on display in Sacramento today, Californians had better hope that's not true.